

An organization formed to encourage better and more economical methods of raising fur bearing animals, to provide an orderly system for marketing the pelts of its members and to create a public demand for their products, and which carries out its purposes by furnishing members educational material on the breeding and raising of fur bearing animals and the marketing of pelts, procuring agreements from auction companies to market the products of its members and furnish them certain beneficial services in connection therewith, and conducting advertising to encourage the use of fur products, is exempt from Federal income tax under section 501(c)(5) of the Internal Revenue Code of 1954 as an agricultural organization.

Advice has been requested whether an organization composed of fur ranchers, which obtains agreements from auction companies for the marketing of products of its members and the furnishing of certain services in connection therewith and advertises fur products produced by members, under the circumstances set forth below, qualifies as an agricultural organization under section 501(c)(5) of the Internal Revenue Code of 1954.

The instant organization was incorporated for the purpose of encouraging better and more economical methods of raising fur bearing animals, educating and protecting the interests of those engaged in breeding them, securing better results in grading, advertising and marketing breeding stocks and pelts, and engaging in any activity connected therewith. Membership is open to producers of certain fur bearing animals who agree to market their pelts through designated auction companies with which the organization has agreements. Under the agreements, the auction companies market pelts for members and furnish them certain services which include visits to their farms or ranches, holding pelts in storage, insuring pelts, marketing and stamping pelts with identifying marks, providing sales rooms, making loans to them under certain conditions, maintaining inventories, and announcing auction sales in trade papers. The receipts of the organization are derived from a percentage of sales of members' pelts which is withheld by the auction company by agreement. Its disbursements are for advertising, general educational programs and other operating expenses.

The organization furnishes members information on selling methods, marketing problems, consumer demands, and conditions and grades of products. It endeavors to create a public demand for their products by advertising in newspapers and magazines. The advertisements stress the desirable features of the product, but do not contain the names of the members. The organization does not engage in the marketing of products of its members or assume any responsibility in connection therewith. It has no net income which will inure to the benefit of any member (except upon dissolution of the organization).

Labor, agricultural, or horticultural organizations contemplated by section 501(c)(5) of the Internal Revenue Code of 1954, as being entitled to exemption from income taxation, are those which:

- (1) Have no net income inuring to the benefit of any member;
- (2) Are educational or instructive in character; and
- (3) Have as their objects the betterment of the conditions of those engaged in such pursuits, the improvement of the grade of their products, and the development of a higher degree of efficiency in their respective occupations.

See Section 39.101(1)-1 of Regulations 118, made applicable to section 501(c)(5) of the Internal Revenue Code of 1954 by Treasury Decision 6091, C.B. 1954-2, 47.

Accordingly, since the instant organization, in obtaining for its members certain services for the economical and orderly marketing of their products and advertising to increase the public demand for their products, is engaged in improving the conditions of its members and the grade of their products and in developing a higher degree of efficiency in their occupations, and since it has no net income inuring to the benefit of any member, it is held to be exempt from Federal income tax under section 501(c)(5) of the Internal Revenue Code of 1954 as an agricultural organization.